

Linden Charter Academy

*Financial Statements, Required
Supplementary Information and Additional
Information for the Year Ended June 30,
2004 and Independent Auditors' Reports*

LINDEN CHARTER ACADEMY

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Linden Charter Academy
Grand Rapids, Michigan

We have audited the accompanying financial statements of governmental activities, each major fund and school service fund of Linden Charter Academy (the "Academy") as of and for the year ended June 30, 2004, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on the respective financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and school service fund of the Academy as of June 30, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, the Academy implemented Statement No. 34 of the Governmental Accounting Standards Board, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, effective July 1, 2003.

The management's discussion and analysis and budgetary comparison information on pages 3 to 5 and 14 and 15 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Academy's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Academy's respective financial statements that collectively comprise the Academy's basic financial statements. The additional information listed in the foregoing table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information is the responsibility of the Academy's management. The additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2004, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

September 10, 2004

LINDEN CHARTER ACADEMY

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2004

This section of the annual financial report for Linden Charter Academy ("the Academy") provides an overview of the Academy's financial activities for the fiscal year ended June 30, 2004. It should be read in conjunction with the financial statements, which immediately follow this section. The Academy implemented Statement No. 34 of the Governmental Accounting Standards Board, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* effective July 1, 2003.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. The Statement of Net Assets and the Statement of Activities on pages 6 and 7 provide information about the activities of the Academy as a whole (academy-wide financial statements). Fund financial statements on pages 8 and 9 provide information about the Academy's most significant funds.

Academy-wide Financial Statements

The academy-wide financial statements include all assets and liabilities and results of operations using the accrual basis of accounting, which is similar to the accounting used by most private sector companies.

The statement of net assets and statement of activities report the governmental activities for the Academy, which encompass all the Academy's services, including instruction, support services and food services. State aid (based on student count) and state and federal grants finance most of these activities. The Academy has entered into a management agreement with National Heritage Academies, Inc. ("NHA") which requires NHA to provide administration, strategic planning and all labor, materials, equipment, and supervision necessary for the provision of educational services to students. As part of the consideration received under the management agreement, NHA also provides the facility in which the Academy operates. Under the terms of the agreement, NHA receives as remuneration for its services an amount equal to the total revenue received by the Academy from all revenue sources.

The table below provides a summary of the Academy's net assets as of June 30:

| | 2004 | 2003 |
|-------------------------|------------------|------------------|
| Assets—current | \$1,064,055 | \$ 937,820 |
| Liabilities—current | <u>993,495</u> | <u>874,501</u> |
| Net Assets—unrestricted | <u>\$ 70,560</u> | <u>\$ 63,319</u> |

The unrestricted net assets of governmental activities represent the accumulated results of life to date operations. These assets can be used to finance day to day operations without constraints, such as legislative or legal requirements. The results of the current year operations for the Academy as a whole are reported in the statement of activities, which shows the change in net assets.

The table below provides a summary of the Academy's change in net assets for the years ended June 30:

| | 2004 | 2003 |
|-------------------------|------------------|------------------|
| Revenue: | | |
| State aid | \$ 4,472,985 | \$ 4,437,383 |
| Operating grants | 998,238 | 870,682 |
| Charges for services | <u>3,472</u> | <u>3,800</u> |
| Total Revenue | 5,474,695 | 5,311,865 |
| Expenses— | | |
| Contracted service fee: | | |
| Instruction | 2,458,840 | 2,430,874 |
| Support services | 2,859,474 | 2,736,472 |
| Food services | <u>149,140</u> | <u>144,234</u> |
| Total Expenses | <u>5,467,454</u> | <u>5,311,580</u> |
| Change in Net Assets | <u>\$ 7,241</u> | <u>\$ 285</u> |

As reported in the statement of activities, the cost of governmental activities was \$5,467,454. These activities were primarily funded by the Academy's state aid (based on student count) and governments and organizations that subsidized certain programs with grants.

The Academy experienced an increase in net assets of \$7,241 in 2004. Under the terms of the agreement with NHA, NHA provides a spending account to the Board of Directors for discretionary expenditures. The primary reason for the change in net assets is the timing of these discretionary expenditures.

A reconciliation of the increase in net assets to the change in fund balance appears on page 9.

Fund Financial Statements

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized when incurred.

The Academy's instruction and support services activities are reported in the General Fund. The School Service Fund represents food service activities. The Academy's combined fund balance was \$70,560 at June 30, 2004.

A reconciliation of the change in fund balance to the increase in net assets appears on page 9.

General Fund Budgetary Highlights

Over the course of the year, the Academy revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in the required supplementary information of these financial statements.

Budgeted revenues for the General Fund were increased \$369,324 from the original budget. Revenues were changed to reflect a change in state aid and to reflect secured grant allocations. Budgeted expenditures for the General Fund were increased \$370,542. This change was to reflect the change in anticipated funding. The variances between the final budget and actual amounts were insignificant.

General Economic Factors

The Academy depends on legislative and governmental support to fund its operations. Based on information currently available, no significant changes are expected to occur in the nature of the funding or operations of the Academy in 2005.

Contacting the Academy's Financial Management

The financial report is designed to provide users of the report with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report, contact the Chief Financial Officer of National Heritage Academies, Inc., 3850 Broadmoor SE, Ste 201, Grand Rapids, Michigan 49512.

LINDEN CHARTER ACADEMY

STATEMENT OF NET ASSETS

JUNE 30, 2004

| ASSETS | Governmental Activities |
|--|------------------------------------|
| CURRENT ASSETS: | |
| Cash | \$ 86,013 |
| Due from governmental revenue sources | <u>978,042</u> |
| TOTAL | <u><u>\$1,064,055</u></u> |
| LIABILITIES AND NET ASSETS | |
| CURRENT LIABILITIES— | |
| Due to National Heritage Academies, Inc. | \$ 993,495 |
| NET ASSETS—Unrestricted | <u>70,560</u> |
| TOTAL | <u><u>\$1,064,055</u></u> |

See notes to financial statements.

LINDEN CHARTER ACADEMY

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2004

| | | Program Revenues | | Governmental |
|---|---------------------|------------------|-------------------|------------------|
| | | Charges for | Operating | Activities |
| | Expenses | Services | Grants | Net (Expense) |
| | | | | Revenue and |
| | | | | Changes in |
| | | | | Net Assets |
| FUNCTIONS/PROGRAMS— | | | | |
| Governmental Activities— | | | | |
| Contracted Service Fee: | | | | |
| Instruction | \$ 2,458,840 | | \$ 880,512 | \$ (1,578,328) |
| Support services | 2,859,474 | | | (2,859,474) |
| Food services | <u>149,140</u> | <u>\$ 3,472</u> | <u>117,726</u> | <u>(27,942)</u> |
| Total governmental activities | <u>\$ 5,467,454</u> | <u>\$ 3,472</u> | <u>\$ 998,238</u> | (4,465,744) |
| General Purpose Revenues—State aid unrestricted | | | | <u>4,472,985</u> |
| Change in Net Assets | | | | 7,241 |
| Net assets: | | | | |
| Beginning of year | | | | 63,319 |
| End of year | | | | <u>\$ 70,560</u> |

See notes to financial statements.

LINDEN CHARTER ACADEMY

BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2004

| | Total Governmental Funds |
|---|--------------------------------|
| ASSETS | |
| Cash | \$ 86,013 |
| Due from governmental revenue sources | <u>978,042</u> |
| TOTAL | <u>\$1,064,055</u> |
| LIABILITIES AND FUND BALANCE | |
| LIABILITIES: | |
| Deferred revenue | \$ 90,820 |
| Due to National Heritage Academies, Inc. | <u>902,675</u> |
| Total liabilities | 993,495 |
| FUND BALANCE—Unreserved and undesignated | <u>70,560</u> |
| TOTAL | <u>\$1,064,055</u> |
| Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets | |
| Total Governmental Fund Balance | \$ 70,560 |
| Due from governmental revenue sources not available to pay current period expenditures therefore deferred in the funds | (90,820) |
| Due to National Heritage Academies, Inc. not due and payable in the current period and not reported in the funds | <u>90,820</u> |
| Net assets of governmental activities | <u>\$ 70,560</u> |

See notes to financial statements.

LINDEN CHARTER ACADEMY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2004

| | General Fund | School Service Fund | Total |
|------------------------------------|------------------|---------------------------|------------------|
| REVENUES: | | | |
| State aid | \$ 4,472,985 | | \$ 4,472,985 |
| Other state sources | 310,501 | | 310,501 |
| Federal sources | 438,011 | \$ 117,726 | 555,737 |
| Local sources | <u>41,180</u> | <u>3,472</u> | <u>44,652</u> |
| Total revenues | 5,262,677 | 121,198 | 5,383,875 |
| EXPENDITURES— | | | |
| Contracted service fee: | | | |
| Instruction | 2,458,840 | | 2,458,840 |
| Support services | 2,768,654 | | 2,768,654 |
| Food services | | <u>149,140</u> | <u>149,140</u> |
| Total expenditures | <u>5,227,494</u> | <u>149,140</u> | <u>5,376,634</u> |
| REVENUES OVER (UNDER) EXPENDITURES | 35,183 | (27,942) | 7,241 |
| OTHER FINANCING (USES) SOURCES— | | | |
| Operating Transfers (Out) In | <u>(27,942)</u> | <u>27,942</u> | |
| NET CHANGE IN FUND BALANCE | 7,241 | | 7,241 |
| FUND BALANCE—Beginning of year | <u>63,319</u> | | <u>63,319</u> |
| FUND BALANCE—End of year | <u>\$ 70,560</u> | <u>\$</u> | <u>\$ 70,560</u> |

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities

| | |
|---|-----------------|
| Net Change in Fund Balance—Total Governmental Funds | \$ 7,241 |
| Revenue reported in the statement of activities that does not provide current financial resources and are not reported as revenue in the governmental funds | (90,820) |
| Contracted service fee recognized consistent with the revenue policy | <u>90,820</u> |
| Change in Net Assets of Governmental Activities | <u>\$ 7,241</u> |

See notes to financial statements.

LINDEN CHARTER ACADEMY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2004

1. NATURE OF OPERATIONS

Linden Charter Academy (the “Academy”) is a Michigan Public School Academy which provides education based on rigorous teaching methods, parental involvement, student responsibility, and basic moral values. The Academy operates under a charter approved by Central Michigan University, which is responsible for oversight of the Academy’s operations. The Academy provides education, at no cost to the parent, to students in kindergarten through the eighth grade. Enrollment is open to all appropriately aged children without regard to gender, ethnic background, disability, and/or religious affiliation.

The Academy is exempt from taxation as a governmental entity pursuant to Internal Revenue Code Section 115. The Academy qualifies for public charity status by meeting the requirements of Internal Revenue Code Sections 509(1) and 170(b)(A)(ii).

The Academy’s primary source of revenue is provided by the State of Michigan and consists of an amount per student multiplied by weighted average student counts. The state revenue is recognized ratably over the school year and was funded through payments from October 2003 through August 2004.

The Board of Directors of the Academy has entered into a management agreement (the “agreement”) with National Heritage Academies, Inc. (“NHA”) which requires NHA to provide administration, strategic planning and all labor, materials, equipment and supervision necessary for the provision of educational services to students. As part of the consideration received under the management agreement, NHA also provides the facility in which the Academy operates. The agreement is for a term of five years and may be terminated or renegotiated by either party by giving at least 90 days written notice.

Under the terms of the agreement, NHA receives as remuneration for its services an amount equal to the total revenue received by the Academy from all revenue sources. NHA provides a spending account to the Board of Directors for discretionary expenditures on an annual basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Academy implemented Statement No. 34 of the Governmental Accounting Standards Board, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, effective July 1, 2003.

Academy-wide and Fund Financial Statements—The academy-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Academy’s government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues not classified as program revenues are reported instead as general revenue.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Academy-wide Statements—The academy-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of inter-fund activity has been eliminated from the academy-wide financial statements.

Fund Based Statements—Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. The contracted service fee to NHA is recorded consistent with the recognition of revenue.

Fund Classification—The financial activities of the Academy are organized on the basis of funds. The operation of each fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

- **General Fund** is used to account for the general education requirements of the Academy. Its revenues are derived primarily from the State of Michigan.
- **School Service Fund** is used to account for the food service operation. Its revenues are derived primarily from a federal grant and student charges.

Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and expenditures during the reporting period. Actual results could differ from those estimates.

Cash—Cash as of June 30, 2004 represents bank deposits which are covered by federal depository insurance. Accordingly, there are no investments which are required to be categorized according to risk.

Deferred Revenue—Deferred revenue as of June 30, 2004 consists of funds received for services which have not been performed or are not available and measurable.

Fund Equity—Fund balances may be reserved or unreserved. The term reserved is used to earmark a portion of fund balance as either legally segregated for a specific future use or to indicate that certain assets do not represent spendable resources available for general educational purposes. The Academy has no reserved fund balances at June 30, 2004.

Budgetary Information—Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the general and special revenue funds.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Academy to have its budget in place by July 1. The budgets can be amended by the Board of Directors of the Academy as considered necessary. The budgets were amended to increase budgeted revenues and expenditures for the general fund by \$369,324 and \$370,542, respectively, and to decrease budgeted revenues and expenditures for the school service fund by \$11,442 and \$12,660, respectively.

3. RISK MANAGEMENT

The Academy is exposed to various risks of loss related to general liability. Commercial insurance policies to cover certain risks of loss have been obtained. There have been no significant reductions in insurance coverage during fiscal year 2004, and claims did not exceed coverage in the past fiscal year.

4. CONTINGENCIES

The Academy has received proceeds from several federal and state grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

* * * * *

REQUIRED SUPPLEMENTARY INFORMATION

LINDEN CHARTER ACADEMY

REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE GENERAL FUND YEAR ENDED JUNE 30, 2004

| | Original Budget | Final Amended Budget | Actual |
|---|--------------------|----------------------------|--------------|
| REVENUES: | | | |
| State aid | \$ 4,393,765 | \$ 4,495,000 | \$ 4,472,985 |
| Other state sources | 308,426 | 331,000 | 310,501 |
| Federal sources | 428,267 | 455,147 | 438,011 |
| Local sources | | 98,635 | 41,180 |
| Private sources—National Heritage Academies, Inc. | | 120,000 | |
| Total revenues | 5,130,458 | 5,499,782 | 5,262,677 |
| EXPENDITURES— | | | |
| Contracted service fee: | | | |
| Instruction: | | | |
| Basic instruction | 1,791,710 | 1,770,000 | 1,863,781 |
| Added needs | 358,438 | 610,000 | 422,588 |
| Special education | 268,716 | 167,572 | 172,471 |
| Support services: | | | |
| Pupil services | | 36,000 | 53,580 |
| Instructional staff services | 199,815 | 300,000 | 243,761 |
| Board of education | 62,402 | 64,188 | 25,827 |
| Executive administration | 516,386 | 630,000 | 637,812 |
| Office of the Principal | 276,050 | 260,000 | 269,036 |
| Business support services | 104,948 | 158,350 | 118,265 |
| Operations and maintenance | 1,227,018 | 1,129,411 | 1,112,907 |
| Central services | 324,975 | 375,479 | 307,466 |
| Total expenditures | 5,130,458 | 5,501,000 | 5,227,494 |
| REVENUES OVER (UNDER) EXPENDITURES | | (1,218) | 35,183 |
| OTHER FINANCING USES— | | | |
| Operating Transfers In (Out) | | 1,218 | (27,942) |
| NET CHANGE IN FUND BALANCE | | | 7,241 |
| FUND BALANCE—Beginning of year | 63,319 | 63,319 | 63,319 |
| FUND BALANCE—End of year | \$ 63,319 | \$ 63,319 | \$ 70,560 |

LINDEN CHARTER ACADEMY

REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE SCHOOL SERVICE FUND YEAR ENDED JUNE 30, 2004

| | Original Budget | Final Amended Budget | Actual |
|--------------------------------------|---------------------|----------------------------|---------------------|
| REVENUES: | | | |
| Federal sources | \$ 79,596 | \$ 84,853 | \$ 117,726 |
| Local sources | <u>53,064</u> | <u>36,365</u> | <u>3,472</u> |
| Total revenues | 132,660 | 121,218 | 121,198 |
| EXPENDITURES— | | | |
| Contracted service fee—food services | <u>132,660</u> | <u>120,000</u> | <u>149,140</u> |
| REVENUES OVER (UNDER) EXPENDITURES | | 1,218 | (27,942) |
| OTHER FINANCING SOURCES— | | | |
| Operating Transfers In (Out) | <u> </u> | <u>(1,218)</u> | <u>27,942</u> |
| NET CHANGE IN FUND BALANCE | | | |
| FUND BALANCE—Beginning of year | <u> </u> | <u> </u> | <u> </u> |
| FUND BALANCE—End of year | <u>\$ </u> | <u>\$ </u> | <u>\$ </u> |

ADDITIONAL INFORMATION

LINDEN CHARTER ACADEMY

ADDITIONAL INFORMATION STATEMENT OF REVENUES—GENERAL FUND YEAR ENDED JUNE 30, 2004

| | |
|----------------------|---------------------|
| State aid | \$ 4,472,985 |
| Other state sources: | |
| Special education | 53,897 |
| At-risk | 255,620 |
| Grants | <u>984</u> |
| Total | 310,501 |
| Federal sources— | |
| Grants | 438,011 |
| Local sources: | |
| Special education | 33,424 |
| Grants | 2,560 |
| Interest income | 236 |
| Miscellaneous | <u>4,960</u> |
| Total | <u>41,180</u> |
| TOTAL | <u>\$ 5,262,677</u> |



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Linden Charter Academy
Grand Rapids, Michigan

We have audited the financial statements of Linden Charter Academy (the "Academy") as of and for the year ended June 30, 2004, and have issued our report thereon dated September 10, 2004, which included an emphasis paragraph regarding the adoption of Statement No. 34 of the Governmental Accounting Standards Board, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management of the Academy, National Heritage Academies, Inc., Central Michigan University, Michigan Department of Education, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

September 10, 2004

Member of
Deloitte Touche Tohmatsu